A G E N D A

PART 201 DISCUSSION GROUP
Brownfield Work Group
Michigan Economic Development Corporation, Lansing, Michigan
December 12, 2006

1:00–1:05 PM	Welcome and Introduction	Bill Rustem
1:05–1:15 PM	Recap of previous discussions	Bill Rustem
1:15–3:00 PM	Ideal program	DEQ staff
	Proposed program–draft	Bill Rustem and all
	1 mill concept	Jim Tischler
3:00–4:00 PM	“80/20” criteria for prioritization	All
4:00–4:30 PM	Next steps and assignments	Bill Rustem

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BROWNFIELD PROJECT SUPPORT
&
GRANT/LOAN PROGRAM
<u>FINANCING PROPOSAL</u>

<u>Objectives</u>

- Provide MDEQ with funding to underwrite the brownfield redevelopment "coordinating office", "specialist/facilitator", and "conceptual project/work program review" proposals previously submitted for review and discussion.

- Provide a source of monies for the MDEQ brownfield redevelopment grant and loan funds, last capitalized from the 1998 CMI Bond and now close to depletion.

- Establish a "user/project-based" financing approach to the Michigan Brownfield Program.

- Encourage an equitable distribution between school and non-school tax capture for Act 381 projects.

<u>Background</u>

The meetings to-date of the Part 201 Brownfields Subgroup have produced a number of worthy proposals. Among these ideas are (1) the concept of MDEQ and/or MEDC staff acting as brownfield redevelopment specialists assigned to scope and facilitate review and recommendation for significant brownfield project; (2) conducting preliminary reviews and making contingent approvals of a comprehensive work program for a brownfield site, contingent upon demonstration of need for and successful completion of response activities; and (3) conversion to a "permitting" approach to cleanup and use of brownfield sites.

Each of these proposals has merit for serious consideration, but all entail the need for funds to provide MDEQ with adequate staff to perform these functions. Moreover, MDEQ staff indicates that the small amount of money remaining from the 1998 Clean Michigan Initiative Bond, for grant and loan financing of brownfield cleanups, are expected to be exhausted by 2007. As of this writing, no future funding source for recapitalization has been identified.

<u>Proposal Mechanics</u>

To address these concerns, MDEQ is proposed to be permitted, by either rule or statutory change, to raise revenue from approval of Act 381 work plans submitted by local brownfield authorities for school tax capture. Under Act 381, if the State (MEDC or MDEQ) approves a work plan, that plan is authorized to capture both the State Education (SET) and Local School Operating (LSO) tax levies, which are six (6) and eighteen (18) mills, respectively. Specifically, two “charges” are proposed:

Brownfield Program Support Charge

Upon approval of an Act 381 work plan, payment of a “Brownfield Program Support Charge”, equivalent to one (1) mill from the SET 6-mill capture multiplied by the new value constructed on the Eligible Property identified in the subject Act 381 brownfield plan, would be required as a condition of the State’s approval. This charge would be an annual charge applicable over the entire term of the approved brownfield plan, collected by the local brownfield redevelopment authority, remitted to the State by a certain deadline, and reported in the authorities’ Treasury Form 3737. The monies collected from these charges would be placed into a State fund to be used to fund MDEQ/MEDC staff time for Brownfield program coordination and project facilitation.

Brownfield Grant/Loan Program Contribution

Upon approval of an Act 381 work plan, payment of a “Brownfield Grant/Loan Program Contribution”, equivalent to one (1) mill from the LSO 18-mill capture multiplied by the new value constructed on the Eligible Property identified in the subject Act 381 brownfield plan, would be required as a condition of the State’s approval. This charge would be an annual charge applicable over the entire term of the approved brownfield plan, collected by the local brownfield redevelopment authority, remitted to the State by a certain deadline, and reported in the authorities’ Treasury Form 3737. The monies collected from these charges would be deposited into a State “Brownfield Fund” to be used for grants and loans for future brownfield projects, as well as State-funded site cleanups.

Local Impact

For local units and their brownfield redevelopment authorities, the immediate effect of this proposal would be to lose an available 8.3% in school taxes which otherwise would go into paying Eligible Activity costs. Conversely, there would be a positive local benefit in the State approving more Act 381 work plans for school tax capture, lessening the burden on non-school taxes to pay those same Eligible Activities. Thus it is likely the overall impact from implementing this proposal would likely be a net gain for local units and brownfield redevelopment authorities.

Summary

This proposal, if implemented, would essentially create a “user-based”, project-supported funding mechanism for Brownfield projects. MDEQ and MEDC would realize financial resources necessary to support the program roles discussed in previous Part 201 Brownfields Subgroup discussions, and also have an ongoing source of monies for grants and loans. An initial recommendation might be for MDEQ to test this approach and, if successful, implement it for all projects.

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BROWNFIELD/REDEVELOPMENT INCENTIVES
GEOGRAPHY-BASED TIER TARGETING PROPOSAL

Objectives

- Provide smaller cities, villages, and urban townships with the ability to utilize all of the brownfield/redevelopment tools currently available to Core Communities.

- Preserve and enhance the Core Communities' ability to attract new investment by increasing incentive values available under the current brownfield/redevelopment programs.

- Combine current-yet-separate interests and initiatives into a consolidated approach having multiple benefits to all parties.

- Address the need for "additional tools" identified in the Part 201 Workgroup – Phase 1 discussion.

Background

During meetings the Part 201 Brownfields Subgroup, a few members have raised concern with the present inability of under-threshold cities, villages, and even townships to utilize the complete cadre of statutory redevelopment tools. A number of tools, such as OPRA, Non-Environmental TIF, and NEZs, are reserved to Core Communities designated under the criteria in Act 146 of 2000.

Efforts to expand municipal eligibility for the Core Community tools have been subject to discussion, proposal, and debate since Act 146 was adopted. These include the MLULC report, the Commerce Center proposal and legislation, and most recently a 2006 bill package to eliminate Core Community designation. Most of these efforts are well-intentioned and laudable – smaller cities, villages, and urbanized places often share the well-documented disadvantage that urban communities have with extraordinary development/redevelopment costs (as well as greenfield site cost advantages built into state/local government policies), and to encourage redevelopment such disadvantages need to be offset.

The significant flaw in these efforts, however, is that to simply expand the "toolkit" to a small or greater number of municipalities will greatly diminish the benefit these tools have for those municipalities with the greatest redevelopment need – the large- and mid-sized urban "Core Community" cities. For an example of this dilution, one only needs to review the history of the State's Act 198 local tax abatement program. Any decision which only opens statewide eligibility for Core Community tools would effectively result in elimination of the relative benefit for the Core Communities.

The Commerce Center concept contains a "targeting" element in defining geographic areas, which would be an improvement from the previous scenario.

Expansion of the Core Community tools to Commerce Center areas, however, will still have a dilution effect, only on a smaller scale. In the large metropolitan area Commerce Centers (Detroit, Flint, Grand Rapids, Lansing, Kalamazoo, etc.) the outer-ring suburban municipalities will still have an economic cost advantage over the inner-ring suburban municipalities, and certainly over the core city – and will likely prevail in most redevelopment location decisions. Again, this would be better than a statewide dilution, but still disadvantageous to most of the present Core Communities.

Alternative Approach – A Multi-Tiered Geographic Targeting System
Instead of implementing the toolkit (and for that matter, the State's economic development policy) as a two-level have/have not system, a more inclusive approach would be to establish a multi-tiered, graduated system which applies more incentive value the closer an investment decision is made to or within an urban community/region and less value the farther away that same decision is made. One simple concept using the proposals currently in circulation would be this structure:

- Proposed Commerce Centers (out-state and non-Core cities/villages/urbanized areas) would be authorized to use the current Core Community redevelopment toolbox to use in attracting investment.

- Core Communities would continue to exist within the Commerce Center regions and authorized (via new or amended statutes) to use an ENHANCED toolbox with HIGHER financial incentive values. Examples of the might be a 25% business tax credit or 75% tax abatement.

This approach would (1) open access to additional redevelopment tools for smaller and out-state municipalities to encourage redevelopment, (2) retain a relative incentive advantages for mid- and large-size cities and for encouraging redevelopment, maintaining consistency with numerous research and organizational policy recommendations to encourage redevelopment in the larger cities where most of the public infrastructure exists, and (3) have a fair chance for enactment because it offers the most benefit to the most parties.

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Part 201 Site Closure Incentive
Another application of "enhanced" incentive values might be to encourage site closures, which is understood to be a policy objective of MDEQ. Specifically, a third party who acquires a brownfield site via appropriate due diligence and liability protection could be incented to undertake a full cleanup/closure by their new investment receiving the higher-value tax credit (such as the 25% example above).

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